

analysis "only requires that there be evidence of sufficient substitution for significant segments of the mass market."?

²³ *Id.*

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REOUEST 1.i:

- I. For all Verizon affiliates and subsidiaries, including legacy Verizon and legacy MCI, estimates of:*
 - i) Verizon's market share of presubscribed long distance services provided to residential customers, Verizon's market share of a local and long distance service bundle, and the elasticity of demand for Verizon's long distance services.*
 - ii) The churn rate for consumers switching among Verizon's plans, and the churn rate for consumers switching to non-Verizon long distance services.*

RESPONSE TO SPECIFICATION 1.i:

The Commission's request for "market share of presubscribed long distance services provided to residential customers" presumes that there is a market for such services. It further assumes that wireline long-distance is a separate market. As described above, however, there are no such markets. Today, there is a single "any distance" market for communications services regardless of geography that includes both distance-insensitive services as well as any stand-alone offerings, and includes internodal competitors such as cable, wireless, and VoIP, as well as traditional wireline carriers. Table I above provides, for each Verizon franchise area and for Verizon as a whole, for June 2006, the share of any-distance voice connections represented by Verizon's local residential switched access lines.

Exhibit 1.1.1 provides an estimate of the percentage of legacy Verizon residential wireline access lines that are presubscribed to Verizon Long Distance, for each Verizon franchise area, and for each quarter between the first quarter of 2005 and year-end 2006. The denominator used in these calculations is the sum of residential Verizon retail, resale, and Wholesale Advantage lines, and residential E911 listings data; the denominator includes legacy MCI lines. As described in Verizon's response to Specification 1.f, in some cases E911 listings data are not available for some portion or all of a state. (It also does not include all competing providers such

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as wireless and some VoIP providers.) The resulting denominator is thus understated, and the percentage of residential lines presubscribed to Verizon Long Distance is correspondingly overstated given that most competitors provide long-distance service to the customers to whom they provide local service. Percentages are calculated separately for residential lines presubscribed Verizon long-distance plans, and for residential lines presubscribed to Verizon Freedom bundled local/long-distance plans, but in both cases the denominator is all retail residential lines. It is reasonable to include all competitive residential lines in the denominator used to calculate the percentage of residential lines presubscribed to Verizon Freedom bundled plans because most competitors provide bundled service plans to their customers. These data are based on the presubscribed lines provided in Exhibit 1.A.1.

As these data show, the percentage of residential wireline access lines that are presubscribed to Verizon Long Distance is below the levels at which the Commission previously made findings of non-dominance with respect to long-distance services, even before the advent of internodal competition.²⁴

Exhibit 1.1.2 provides the migration rate for residential wireline customers switching among Verizon Long Distance plans for each quarter in 2005 and 2006, and the churn rate for consumers switching to another long-distance carrier, for each quarter between year-end 2003 and year-end 2006. Migration-rate data are not available prior to 2005.²⁵

²⁴ When the Commission declared AT&T to be non-dominant in the provision of domestic interstate interexchange services, AT&T's market share of such services was estimated to be approximately 60 percent. *AT&T Reclassification Order* ¶ 67. Likewise, AT&T's share of the international message telephone service market was estimated to be sixty percent when AT&T was declared non-dominant in the provision of those services, and AT&T's average market share in 76 select countries was 74 percent, and AT&T faced no competition at all in four countries. *Motion of AT&T Corp. To Re Declared Non-Dominant for International Service*, Order, 11 FCC Rcd 17963,1140 (1996).

²⁵ Verizon is determining whether data on the migration rate and churn rate is available with respect to the former MCI.

REQUEST 1.j:

- J. The number of Verizon's residential mobile wireless lines. Additionally, provide:*
- i) An estimate of Verizon Wireless's share of residential mobile wireless lines.*
 - ii) An estimate of the proportion of Verizon's residential mobile wireless subscribers that subscribe to Verizon's mobile wireless service instead of a wireline local exchange service and long distance service.*

RESPONSE TO SPECIFICATION 1.j:

Exhibit 1.J provides the total number of Verizon Wireless subscribers, by state, for each quarter from year-end 2003 to year-end 2006. As noted above in response to Specification 1.h, Verizon Wireless does not maintain data on wireless subscribers within each Verizon franchise area. Nor does Verizon Wireless track "residential" vs. "business" subscribers. Exhibit 1.J also calculates Verizon's Wireless share of mobile subscribers by state, biannually, from year-end 2003 to June 2006. The denominator in this calculation is the total number of wireless subscribers per state, as reported biannually in the Commission's Local Competition Reports.

As noted above in response to Specification 1.h, Verizon does not maintain information in the ordinary course of business on the proportion of Verizon's mobile wireless subscribers that subscribe to Verizon's mobile wireless service instead of a wireline local exchange service and long-distance service. Specification 1.h provides analyst estimates of the extent to which consumers in the nation as a whole are using wireless service in place of wireline service.

REOUEST 2:

2. *For each Verizon franchise area, provide the number of retail residential wireline lines for which Verizon is the presubscribed interstate long distance carrier but not the local exchange carrier.*

RESPONSE TO SPECIFICATION 2:

Exhibit 2 contains Verizon's response to this specification. It provides, for each Verizon franchise area and Verizon as a whole, year-end data for 2004 through 2006, the number of retail residential wireline lines for which Verizon is the presubscribed interstate long-distance carrier but not the local exchange carrier. Verizon does not have complete data for the former Bell Atlantic states: data for Maryland, Virginia, West Virginia, and the District of Columbia were not available; March 2005 data are provided in lieu of December 2004 data in Delaware, New Jersey, and Pennsylvania.

REQUEST 3:

- 3 *Define each retail and wholesale business customer class to which Verizon sells domestic and international interLATA telecommunications services. List and define each domestic and international interLATA telecommunications service (e.g., long distance voice, long haul traffic, private line, ATM, Frame Relay, T1, T3) that Verizon sells to each of these customer classes.*

RESPONSE TO SPECIFICATION 3:

Business customers occupy a continuum, and any attempt to group such customers by size is necessarily arbitrary. To the extent it is necessary to define classes of business customers, however, these categories are most logically distinguished based on the telecommunications needs of these types of customers.

Solely for internal marketing purposes, Verizon categorizes business customers into three groups. Larger business customers are those that spend an average of more than [BEGIN
CONFIDENTIAL] [END CONFIDENTIAL] per month on telecommunications. These customers have a number of common characteristics: they generally have complex requirements, are served under individual contracts, and are marketed through direct sales contacts. The interLATA communications services that Verizon sells to these customers include voice services and data services such as private line, frame relay, and ATM

General business customers are small and medium-sized businesses that have a number of common characteristics: they have less than 500 employees (small businesses are those with less than 20 employees), spend less than \$250,000 annually on telecommunications, and are marketed through both internal sales employees and external sales agents. The interLATA communications services that Verizon sells to these customers include voice services and data services such as ISDN, private line (DS1/ DS3), T1/ T3, Frame Relay, ATM, and Sonet.

Wholesale business customers include the following types of providers: facilities based and non-facilities based resellers, Competitive Local Exchange Carriers (CLECs), Internet Service Providers (ISPs), interexchange carriers (IXCs), wireless carriers, and independent telephone companies (ITCs). Verizon (through its legacy MCI companies) provides the following services to wholesale business customers: Special Access (DSx), Long Distance Voice (domestic and international), IP Services, Long Haul Traffic (domestic and international), Fast Packet Services (ATM, Frame Relay), Optical Point-to-Point and Ring Services (OCn), and Ethernet Services.

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REQUEST 4:

4. *For each Verizon franchise area and each metropolitan statistical area in Verizon's franchise area, provide for each retail business customer class (e.g., small, medium and large enterprise customers) and each service class (e.g., long distance voice, ATM, Frame Relay, T1, and T3), an estimate of the market share of revenues (or some other generally accepted unit of measurement) for Verizon and for each of Verizon's competitors.*

RESPONSE TO SPECIFICATION 4:

Exhibits 4.1 and 4.2 contain worksheets that were compiled by Verizon based on data from TNS Telecoms' survey of business locations, to which Verizon is a subscriber.²⁶ TNS collects data using telephone interviews with corporate decision makers for telecommunications and data communications services.

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²⁶ The group within Verizon's Enterprise Services Group that, before the MCI merger, attempted to collect market data, including market shares of competitive providers for enterprise services, has been reorganized and many have left the company. The reorganized group is still developing the ability to track this type of information. Verizon also no longer has access to the Projected Market Intelligence Database from Harte-Hanks, as Verizon no longer subscribes to that data.

[END CONFIDENTIAL]

Even though the TNS data are likely to understate levels of competition among multi-location large businesses, they nonetheless show that Verizon is not dominant for any of the principal services provided to business customers, either on a national basis, or even within its own footprint. To the contrary, the data show that there are a wide range of competitive providers for these services and that Verizon's share is below the levels at which the Commission previously made findings of non-dominance.

With the exception of long-distance, all the TNS data being provided are 2006 totals for Verizon's footprint as a whole and for the nation as a whole.

The worksheet in Exhibit 4.2 labeled "Nation LD 1Q06-4Q06" provides, for each customer class, shares of long-distance revenues by provider. **[BEGIN CONFIDENTIAL]**

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[END CONFIDENTIAL] Finally, the data are simply a snapshot of revenues, and therefore ignore the dynamic nature of the business and the many new options – such as cable, wireless, and VoIP – that small business customers can increasingly use going forward.

The worksheets in Exhibit 4.2 labeled “ATM Nation” and “ATM Vz” provide, for business customers as a whole, shares of ATM and Frame Relay revenues by provider, nationally and in Verizon’s service area, respectively.

The worksheets in Exhibit 4.2 labeled “T Line Nation” and “T Line Vz” provide, for business customers as a whole, shares of high-capacity digital line (or “T-Line”) revenues by provider, nationally and in Verizon’s service area, respectively.

The worksheets in Exhibit 4.2 labeled “VPN Vz” and “VPN Nation” provide, for business customers as a whole, shares of VPN revenues by provider, nationally and in Verizon’s service area, respectively.

As the Commission has recognized, enterprise customers are increasingly migrating away from more traditional data services such as ATM and Frame Relay and instead purchasing IP Virtual Private Network (“IP-VPN”) and other converged services that are provided over Multi-Protocol Label Switching (“MPLS”) networks.” Moreover, enterprise customers are

²⁷ See *Verizon/MCI Order* ¶ 57 & n. 163; see also T. Seitz, *Lehman Brothers, Telecom Services -- Wireline*, at 4, Figure 5 (Oct. 18, 2006) (“Some of the more mature services like Frame Relay and ATM are shrinking; however, newer services like IP/VPNs, Metro Ethernet, and Hosting are growing rapidly.”).

increasingly using data services to carry their voice traffic. The TNS data do not capture all of the traffic handled by these services, which causes the data to further understate competition. When all the various data services that enterprise customers purchase are taken as a whole, Verizon's share of retail data services revenues provided to business customers is small. For example, Lehman Brothers estimated Verizon's share of such revenues at 14.5percent in 2006, and expected it to decline to **13.9**percent in 2007.²⁸ Lehman Brothers also estimates that Verizon's share of total business service revenues is small – \$19.7 billion, compared to \$103.7 billion for the market as a whole, representing a share of approximately 19percent.²⁹

²⁸ T. Seitz, Lehman Brothers, *Telecom Services - Wireline*, at 11, Figure 15 (Oct. 18, 2006) (attached hereto as Exhibit 4.3).

²⁹ *Id.* at 14, Figure 19.

REQUEST 5

5. *For the nation as a whole,*

- a. *Provide for national, multi-locational large enterprise customers purchasing long distance voice services, an estimate of Verizon's market share of revenues (or of some other generally accepted unit of measurement) and an estimate of the market share of each of Verizon's competitors.*
- b. *Provide for long haul services, an estimate of Verizon's market share of revenues (or of some other generally accepted unit of measurement) and an estimate of the market share of each of Verizon's competitors.*

RESPONSE TO SPECIFICATION 5:

Exhibit 4.1, described in the response to Specification 4, provides Verizon's response to request 5.a. It provides, by provider, shares of revenues from long-distance services provided to large business customers based on survey data collected by TNS. The TNS data do not distinguish between multi-location large enterprise customers and other large enterprise customers

Verizon has not yet located data responsive to request 5.b, but is still attempting to do so.

EXHIBIT 1.A.1

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EXHIBIT 1.A.2

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EXHIBIT 1.A.3

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EXHIBIT 1.A.4

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EXHIBIT 1.B

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EXHIBIT 1.C

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EXHIBIT 1.D

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